

15 November 2018

On 23 August 2018 Affinity Water Limited (the "**Company**", "**AWL**") announced that it was considering the substitution of Affinity Water Programme Finance Limited (the "**Current Programme Issuer**"), an entity incorporated in the Cayman Islands, with a special purpose vehicle incorporated under the laws of England and Wales.

Further to the above announcement, the Company today announced a STID Proposal in respect of the following series of bonds issued by (i) the Current Programme Issuer and guaranteed by the Company, Affinity Water Holdings Limited and Affinity Water Finance (2004) PLC (the "**Existing Issuer**"); and (ii) issued by the Existing Issuer and guaranteed by the Company, Affinity Water Holdings Limited and the Current Programme Issuer, (together, the "**Bonds**"):

	ISIN	Description	Issuer	Class	Principal Amount Outstanding
1	XS0883690090	A1 3.625 per cent. Guaranteed Bonds due 2022	Current Programme Issuer	A	£14,204,000
2	XS1722862080	A5 2.699 per cent. Guaranteed Bonds due 2033	Current Programme Issuer	A	£60,000,000
3	XS0883686650	A2 4.500 per cent. Guaranteed Bonds due 2036	Current Programme Issuer	A	£250,000,000
4	XS1480879540	A4 3.278 per cent. Guaranteed Bonds due 2042	Current Programme Issuer	A	£85,000,000
5	XS1722861439	A6 0.23 per cent. CPI-Linked Guaranteed Bonds due 2042	Current Programme Issuer	A	£60,000,000
6	XS0883688516	A3 1.548 per cent. RPI Linked Guaranteed Bonds due 2045	Current Programme Issuer	A	£190,000,000
7	XS0195751523	5.875 per cent. Guaranteed Notes due 2026	Existing Issuer	A	£250,000,000

Capitalised terms used in this announcement and not defined herein shall have the meanings ascribed to them in the solicitation memorandum dated 15 November 2018 (the "**Solicitation Memorandum**").

BACKGROUND

The Current Programme Issuer was established in 2013 to raise long-term finance for the Company's investment programme and operations through the use of a whole business securitisation structure. At the time of implementing the whole business structure the Company believed, and continues to believe that the whole business structure offers many advantages to the Company through ensuring access to long term capital, best matched to the financing needs of the Company.

The Current Programme Issuer was incorporated outside the UK to address two competing pieces of UK legislation: (1) the restriction banning a private limited company from making offers of securities to the public (i.e. issuing bonds) and so requiring a public limited company to be used; and (2) a prohibition on public limited companies providing "financial assistance" in respect of the purchase of their own shares ("**Financial Assistance**").

The rules in respect of Financial Assistance were abolished in respect of private limited companies by the Companies Act 2006 (which came into force in October 2009). In respect of public limited companies some rules remain (due to reasons of EU law) but have been substantively recast so that actions which would have constituted Financial Assistance under the Companies Act 1985, would not be so constituted under the Companies Act 2006.

Nonetheless, at the time the whole business securitisation transaction was implemented there was very limited precedent as to how such rules would be applied. Therefore, in order to issue bonds (in part to refinance debt with longer term debt), the Cayman Islands incorporated Current Programme Issuer (to which the Companies Act 1985 did not apply) was used as an issuing subsidiary. It is now clear, however, that if the Company's whole business securitisation transaction was to be implemented today, there would be no need to use a Cayman Islands incorporated company.

Despite being incorporated in the Cayman Islands, the Current Programme Issuer has always been resident for tax purposes solely in the UK.

Changes to the rationale for adopting the existing structure described above, mean that the Company now believes that the time is opportune to remove the Cayman Islands incorporated Current Programme Issuer and replace it with an English incorporated SPV (the "**Substitute Programme Issuer**") as explained in more detail below (the "**Proposed Substitution**"). This will support the Company's transparency objective, be in the interests of its customers and wider stakeholders and, the Company believes, be viewed as a positive step by Ofwat and HM Government.

THE PROPOSED SUBSTITUTION

The following paragraphs summarise the Proposed Substitution, which is more fully set out in the STID Proposal appended in Schedule 2 to the Solicitation Memorandum.

The Proposals described in the Solicitation Memorandum have been considered by a special committee (the "**Special Committee**") of The Investment Association at the Company's request.

The members of the Special Committee, who hold in aggregate approximately 58.1 per cent. of the aggregate principal amount outstanding of the Class A Bonds issued by the Current Programme Issuer (at their originally issued nominal amount) and approximately 36.8 per cent. of the aggregate principal amount outstanding of the Bonds issued by the Existing Issuer (at their originally issued nominal amount) have examined the Proposals. They have informed the

Company that they find the Proposals acceptable and that, subject to client and other approvals, they intend to vote in favour of the Proposals in respect of their holdings of Bonds.

The Special Committee has advised the Affinity Water group that this recommendation relates only to the Proposals set out in the Solicitation Memorandum and not to any future offers or proposals which the Company may make.

1. Incorporation of the Substitute Programme Issuer

The Substitute Programme Issuer will be incorporated in England as a public limited company and at that time is expected to be a direct wholly owned subsidiary of an affiliate of AWL which is outside the WBS Transaction ring fence, for administrative reasons. At the effective date of the Proposed Substitution the Substitute Programme Issuer will be transferred into the ring-fenced group and become a direct wholly owned subsidiary of AWL. The constitutional documents of the Substitute Programme Issuer will be based on those of the Current Programme Issuer but with a small number of changes which are necessary because the Substitute Programme Issuer will be an English public limited company (rather than a company incorporated in the Cayman Islands). The Current Programme Issuer is tax resident in the UK and the Substitute Programme Issuer will also be tax resident in the UK.

2. Transfer of assets

The Current Programme Issuer will transfer all of its assets (including the benefit of its intra-group loan agreements with AWL) to the Substitute Programme Issuer.

3. Transfer of liabilities

The Current Programme Issuer will transfer all of its liabilities (including its obligations to make repayments under the Transferred Securities) to the Substitute Programme Issuer.

4. Assumption of rights and obligations

The Substitute Programme Issuer will assume all of the Current Programme Issuer's obligations in respect of the Bonds (whether as issuer or guarantor).

5. Removal of the Current Programme Issuer

Following the transfer of assets and liabilities from the Current Programme Issuer to the Substitute Programme Issuer (as described above), the entire share capital of the Current Programme Issuer will be transferred by AWL to another company in the Affinity Water group which is outside of the WBS Transaction ring fence. The new shareholder will pay to AWL consideration for the entire share capital of the Current Programme Issuer.

The Current Programme Issuer will then be liquidated (on a solvent basis).

6. Guarantee and Security

All Guarantors of the Current Programme Issuer's obligations (including AWL) will confirm that the Guarantees given by them under the Security Agreement apply to the secured obligations and liabilities of the Substitute Programme Issuer (as they did to those of the Current Programme Issuer). The Substitute Programme Issuer will also replace the Current Programme Issuer as a Guarantor in relation to the secured obligations and liabilities guaranteed by the Current Programme Issuer and will accede to the Security

Agreement as a Chargor and provide equivalent security to that currently granted by the Current Programme Issuer.

7. **Amendment Conditions**

The Proposed Substitution is not expected to adversely affect the rights of Bondholders or other secured creditors of the Current Programme Issuer. The implementation of the Proposed Substitution is conditional, however on:

- (a) Rating Agency confirmations confirming that the Proposed Substitution will not cause a downgrade or removal of the then current rating of the Bonds (or where a Rating Agency is not willing to provide its confirmation due to prevailing policy regarding the issue of rating affirmations, a certificate in writing from AWL addressed to the Security Trustee certifying that, in its opinion (and where the relevant Rating Agency was prepared to consult with AWL, this opinion is based on consultation with such Rating Agency), the Proposed Substitution would not cause a downgrade or removal of the then current rating of the Bonds;
- (b) Delivery to the Security Trustee of certain legal opinions as to matters of capacity and enforceability of certain transaction documents;
- (c) Voting in favour of the STID Proposal by the majority of the Class A Debt Instructing Group which will include:
 - (i) The holders of Class A Bonds voting in accordance with the procedures set out in Schedule 4, Part B (*Provisions for Voting in respect of STID Direct Voting Matters*) of the applicable Bond Trust Deed; and
 - (ii) The holders of Existing Issuer Bonds voting in accordance with the procedures set out in Schedule 5 (*Provisions for Voting in respect of STID Direct Voting Matters*) of the applicable Bond Trust Deed,

in each case, subject to confirmation by the Security Trustee that the Quorum Requirement for a Voting Matter has been satisfied, and that the resolution in respect of the Voting Matter set out in the STID Proposal has been passed by the Majority Creditors pursuant to clause 8.11 (*Requisite majority in respect of a Voting Matter*) of the STID, and

- (d) The execution of documentation in respect of the Substitute Programme Issuer's accession to certain transaction documents and ancillary amendments required in connection therewith,

in addition to certain other consents, as described in the STID Proposal.

VOTING PROCEDURES

The voting procedures which are set out at the section entitled "*Procedures in Connection with the Consent Solicitation*" of the Solicitation Memorandum will apply to Bondholder votes in respect of the STID Proposal, and summarise the detailed information as to voting procedures which are given in the relevant Bond Trust Deed.

WORK FEE

Subject to the conditions set out in the Solicitation Memorandum, including the approval of the STID Proposal and the announcement by the Company of such approval, the Company will pay,

or procure the payment of, to a holder of the Bonds who has delivered a valid Electronic Voting Instruction in respect of the STID Proposal which has been received by the Tabulation Agent at or prior to the Fee Instruction Deadline, which has not been validly withdrawn following the Fee Instruction Deadline and/or at or prior to the Expiration Time, a Work Fee equal to 0.025% of the Principal Amount Outstanding of such Bonds the subject of the relevant Electronic Voting Instruction.

The Work Fee will be paid on the relevant Payment Date via the relevant Clearing System for onward payment to the cash account of an eligible holder of the Bonds in such Clearing System. The payment of any such amounts to the relevant Clearing System will discharge the obligations of the Company in respect of the Work Fee to all such relevant Bondholder(s).

For the avoidance of doubt, Bondholders of each Issuer who wish to vote in respect of the STID Proposal and be eligible for the Work Fee will be required to submit independent instructions in respect of each series of Bonds in respect of which they wish to vote.

Bondholders will not be eligible to receive the Work Fee if they do not submit a valid Electronic Voting Instruction which has been received by the Tabulation Agent at or prior to the Fee Instruction Deadline, or if they revoke their instructions after the Fee Instruction Deadline and/or on or prior to the Expiration Time, or if they unblock their Bonds prior to the Payment Date.

It is a condition to the Company's obligation to pay or procure the payment of the Work Fee to relevant Bondholders that: (i) the STID Proposal has been approved; and (ii) the Bond Trustee and/or the Security Trustee has announced such approval. Such condition(s) are waivable at the discretion of the relevant Issuer.

EXPECTED TIMETABLE

Event	Date
Announcement of Proposals and delivery of the STID Proposal.	15 November 2018
Solicitation Memorandum and draft Master Implementation Deed to be made available at the specified office of the Tabulation Agent (copies of which are obtainable by Bondholders upon request, free of charge).	15 November 2018
Fee Instruction Deadline: Latest time and date for receipt of Electronic Voting Instructions by the Tabulation Agent through the Clearing Systems for holders to be eligible for payment of the Work Fee.	4.00 p.m. (London time) on 30 November 2018
Expiration Time: Latest time and date for receipt of valid Electronic Voting Instructions by the Tabulation Agent through the Clearing Systems (such Electronic Voting Instructions are irrevocable from this date).	4.00 p.m. (London time) on 6 December 2018
STID Voting Deadline	4.00 p.m. (London time) on 6 December 2018
Announcement of results of STID Proposal	7 December 2018 or earlier, subject to the

	STID Proposal, should the Security Trustee have received votes in favour of the Proposals from Class A DIG Representatives representing more than 50% of the aggregate Outstanding Principal Amount of all relevant Qualifying Secured Debt.
If the STID Proposal is approved and the Company has announced such approval	
Payment of the Work Fee to those holders who are eligible for payment in accordance with the conditions stipulated in the Solicitation Memorandum.	On the Payment Date which is expected to be on or about the fifth Business Day following the announcement of the results of STID Proposal.
Execution of the Master Implementation Deed	On the Amendment Date – to occur as soon as reasonably practicable after the STID Voting Deadline. The amendments under the Master Implementation Deed will become effective on the Substitution Effective Date, currently expected to occur within six months of the STID Voting Deadline, subject to satisfaction (or waiver by the Security Trustee) of each Amendment Condition.

All of the above dates are subject to earlier deadlines that may be set by the Clearing Systems or any intermediary.

GENERAL

Subject to applicable law and as provided in the Solicitation Memorandum, the relevant Issuer may, in its sole discretion, amend the terms of (save for the Expiration Time), terminate or withdraw the Consent Solicitation at any time up to the Solicitation Amendment Deadline.

Bondholders are advised to check with the bank, securities broker, trust company, custodian, Clearing System or other intermediary through which they hold their Bonds whether such intermediary will apply different deadlines for participation to those set out in the Solicitation Memorandum and, if so, should adhere to such deadlines if such deadlines are prior to the deadlines set out in the Solicitation Memorandum.

In relation to the delivery or revocation of Electronic Voting Instructions, in each case, through the Clearing Systems, Bondholders holding Bonds in Euroclear or Clearstream, Luxembourg should note the particular practice of the relevant Clearing System, including any earlier deadlines set by such Clearing System.

Only direct accountholders in Euroclear or Clearstream, Luxembourg may deliver Electronic Voting Instructions. Bondholders who are not direct accountholders in Euroclear or Clearstream, Luxembourg should arrange for the accountholder through which they hold their Bonds to deliver an Electronic Voting Instruction on their behalf to the relevant Clearing System as more particularly described in the Solicitation Memorandum. The deadlines specified by the relevant Clearing System may be earlier than the Fee Instruction Deadline and/or the Expiration Time.

Bondholders are advised to read carefully the Solicitation Memorandum for full details of and information on the procedures for participating in the Consent Solicitation.

A complete description of the terms and conditions of the Consent Solicitation will be set out in the Solicitation Memorandum.

For Further Information:

Questions relating to the Consent Solicitation can be directed to the Solicitation Agent or the Company:

Solicitation Agent:

Lloyds Bank Corporate Markets plc
10 Gresham Street
London EC2V 7AE
United Kingdom

Telephone: +44 (0) 20 7158 1719/1726
Email: liability.management@lloydsbanking.com
Attention: Liability Management Team, Commercial Banking

The Company:

Affinity Water Limited
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Telephone: +44 1707 679 340
Email: Nilesh.Patel@affinitywater.co.uk
Attention: Nilesh Patel, Treasurer

Copies of the Solicitation Memorandum can be obtained from the Tabulation Agent:

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Telephone: +44 20 7508 3867
Fax: +44 20 3320 2405
Email: citiexchanges@citi.com
Attention: Exchange Team

Copies of the STID Proposal (excluding any annexes thereto) will be made available on the website of the Company.

DISCLAIMER

This announcement must be read in conjunction with the Solicitation Memorandum. The Solicitation Memorandum contains important information which should be read carefully before any decision is made with respect to the Consent Solicitation. If any Bondholder is in doubt as to the action it should take, it is recommended to seek its own financial advice, including as to any tax consequences, from its stockbroker, bank manager, solicitor, accountant, independent financial adviser authorised under the Financial Services and Markets Act 2000 (if in the United Kingdom) or other appropriately authorised financial adviser. Any individual or company whose Bonds are held on its behalf by a broker, dealer, bank, custodian, trust company or other nominee must contact such entity if it wishes to participate in the Consent Solicitation. This announcement is issued by Affinity Water Limited. None of the Solicitation Agent, the Bond Trustee or the Existing Bond Trustee accepts any responsibility for the contents of this announcement.

This announcement is released by Affinity Water Limited and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 ("**MAR**"), encompassing information relating to the Proposed Substitution described above. For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is made by Tim Monod at Affinity Water Limited.